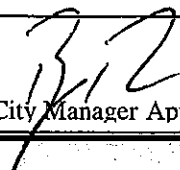




Report to the Auburn City Council

*Action Item**Agenda Item No. 7*
City Manager Approval

To: Mayor and City Council Members
From: Bernie Schroeder, Director of Public Works
Date: February 25, 2013
Subject: Regional Sewer Project Deal Points

The Issue

Shall the City provide the City of Lincoln and the Placer County Board of Supervisors (BOS) a series of deal points to continue the City of Auburn's intent to participate with the Regional Sewer Project?

Conclusion and Recommendation

The City Council approves the Regional Sewer Deal Points and send them to Placer County Board of Supervisors and the City of Lincoln.

Background

On February 11, 2013 the City Council heard an update on the Regional Sewer Project and directed staff to prepare draft deal points that would eventually be sent to Placer County and the City of Lincoln. Staff has prepared the draft deal points and incorporated the changes from the City Council for your review and approval.

Updated Information:

During the February 11, 2013 City Council meeting, there was discussion regarding the possibility of the County providing a minimum of \$7 million and the possibility of zero percent financing available from the State Revolving Fund (SRF). Upon further research, staff has found that qualifying for the zero percent financing was, in all previous cases, contingent on several factors including:

- (1) A jurisdiction's placement as a "Disadvantaged Community (DAC)" with respect to sewer rates paid as a percentage of median household income (must be less than 80% of Statewide Median Household Income – only 33% of the City of Auburn's census tracts fit this criteria);
- (2) Whether or not the State has adequate funds available to allocate to the jurisdiction as part of the DAC program; and
- (3) Whether or not the State Water Resource Control Board had made a determination that lowering the interest rate from 1.70% was within the scope of their policy objectives (note: all recent interest rate adjustments have only been provided to DAC's).

With respect to the impact of a zero percent SRF loan on the amount of subsidy required to maintain stable rates, staff estimates annual debt service for a \$26 million SRF loan would decrease by approximately \$250,000 annually, or about \$3.00 per EDU/Month.

Alternatives Available to Council:

1. Accept Draft Deal Points and forward them on to Placer County Board of Supervisors and the City of Lincoln Council.
2. Amend the Draft Deal Points and forward them on to Placer County Board of Supervisors and City of Lincoln Council.
3. Do not send the Deal Points.

Fiscal Impacts

The City has budgeted for the staff time to prepare the Regional Sewer Deal Points.

Attachments: Exhibit A -- Regional Sewer Deal Points

EXHIBIT A

REGIONAL SEWER DRAFT DEAL POINTS TO CONSIDER

Agreements

Following the general process or model that Placer County has initiated in constructing the Western Regional Sewer Project there could be a series of agreements between the jurisdictions. The first, a Design and Environmental Review Agreement (DERA) followed by a Construction and Initial Operations Agreement (CIOA).

For Auburn, staff is proposing City Council consider these general provisions to be included in a model type agreement such as a DERA:

1. Auburn's buy in for the common section of pipeline only is estimated at 2.8 million. This would be in the form of an agreement with Placer County. Referenced from the Lincoln/County DERA.
2. Lincoln would be responsible for environmental work for everything related to the Lincoln Plant, Auburn Plant and the regional pipelines.
3. Auburn would be presented an option to participate in the common pipeline prior to the award of the County related regional project (estimated to be in Sept 2013). This would be an understanding under an agreement with Placer County.
4. The City of Auburn would reimburse the City of Lincoln as the work is completed not upfront.
5. Indemnification: Neither the County nor Lincoln is indemnifying the other party in their approved DERA so Auburn staff would support a similar arrangement pending input from the City Attorney and Risk Management.
6. Initiate the Environmental Impact Report for the Auburn facilities following the bidding of the County project which includes the common pipeline to benefit by actual bid numbers.
7. The City of Auburn and Lincoln would work cooperatively together to complete the design and environmental review process however there would be no hard line deadlines not mutually agreed upon prior to the full execution of the DERA.
8. In the event after the completion of the environmental process Lincoln or Auburn chooses not to move forward with the project, the City of Auburn will receive ownership of the design documents and may elect to move forward at a later date or by another means or not at all.
9. Any costs or changes in scope associated with the DERA would be approved by the Auburn City Council.

Other issues that would be decided upon under the DERA would likely include Terms and Termination, Rights of Way and Property Acquisitions, Financing, Water Rights, Additional Agreements, Dispute Resolution and other specific to legal matters between the parties.

For the model type CIOA, staff is suggesting the following provisions be considered:

1. The CIOA would be utilized as a mechanism for the construction and management of the regional pipeline including treatment at the Lincoln plant and would establish the framework for the future governance.
2. The budget for this project is understood currently to be at \$36.3 million but would be adjusted based on actual construction bids, adjustment for proposed Auburn retention of plant and Auburn only pipe and with agreement from Lincoln City Council.

3. Lincoln operates its plant and regional pipelines; Auburn owns, operates its ponds, pump station and pipelines.
4. For the treatment of effluent Auburn pays operations and maintenance costs equal to that of the Lincoln and Placer County rate payers. For maintenance of the regional facilities and Lincoln oversizing costs this would be established and agreed to in the CIOA.
5. Lincoln would be responsible for any regulatory fines associated with the regional facilities Auburn for the Auburn portion.
6. The City of Auburn (as with Placer County) would be responsible for any regional portion construction cost overruns that exceed the oversizing payment.
7. The City would establish a fiscal disbursement agreement to make payments for work completed under the CIOA.
8. The CIOA would establish the connection fee for the regional Project and this fee along with the M & O fee component of the rate would be the same for all users.
9. The costs to buy into the Lincoln Plant will be firm for existing users and the City of Auburn will be provided an option to purchase an additional of treatment capacity once the Regional Project is constructed at the then current Lincoln connection fee.
10. The CIOA would include provisions for governance during the first 5 years of operations as well as a framework for long term governance and dispute resolution.
11. Execution of the DERA would not contractually bind either party to execution of the CIOA.
12. Lincoln is responsible for managing construction of its WWTP and regional pipelines (Auburn would reimburse Lincoln).
13. Auburn would manage construction of its plant site and pipeline since they would be separate projects and owned and operated by the city.
14. Start construction after environmental (EIR Addendum for Auburn) is certified and the County near completion.

Governance

The issue of governance is not yet fully developed but a joint powers approach for the Regional project is typically a good model which provides the greatest potential for equity and fair representation.

Specific deal points to consider are as follows:

1. All parties share equally in the future cost of compliance at the Lincoln WWTP.
2. Provisions in the agreement would protect Auburn rate payers from being burdened with compliance costs that are specifically a result of either one of the other parties and not Auburn.
3. Each agency to manage the design and construction of the facilities they will ultimately own.
4. Auburn to enter into an agreement with Placer County and Lincoln for the annual maintenance of the Regional pipe line and Lincoln WWTP for treatment operations.

City Council Amendments (2/11/13)

1. Governance Agreement would be a Joint Powers Agreement with a strong voice and veto powers over any major changes in the by-laws of leadership.
2. Financing that would provide for complete rate stabilization for Auburn, which includes no rate increases to the rate payers.
3. Auburn would maintain complete control over the decisions and timing of repairs of the City's Collection System.
4. FERC funds at least partially diverted to an Enterprise Fund for the Regional Sewer Project.
5. Developer Reimbursement agreements at future cost levels for connecting into the Regional Pipeline.

6. Environmental Impact Report (EIR) certified with mitigation measures and approved by Auburn.
7. Auburn is not responsible for make-up water.

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